

**Oil and Gas Royalty Settlement Agreements Reopener  
Arbitration**

**FY2008 Request: \$500,000**  
**Reference No: AMD31371**

**AP/AL:** Appropriation

**Project Type:** Planning

**Category:** Development

**Location:** Statewide

**Contact:** Nico Bus

**House District:** Statewide

**Contact Phone:** (907)465-2406

**Estimated Project Dates:** 07/01/2007 - 06/30/2009

**Brief Summary and Statement of Need:**

This project will fund the cost of outside oil and gas experts and legal counsel, and the State's cost of reopener arbitrations as the State proceeds with the renegotiation and arbitration of royalty issues.

<b>Funding:</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>Total</b>
Gen Fund	\$500,000	\$500,000		\$500,000		\$500,000	\$2,000,000
Total:	\$500,000	\$500,000	\$0	\$500,000	\$0	\$500,000	\$2,000,000

<input type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input checked="" type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input checked="" type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

**Operating & Maintenance Costs:**

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

**Additional Information / Prior Funding History:**

SLA06/CH82 - \$1,000,000

SLA98/CH139 - \$100,000

The project serves primarily as a fund for reopeners, due to the unpredictable and random timing and content of reopener requests.

**Project Description/Justification:**

The three primary Alaska North Slope (ANS) royalty settlement agreements (between the State and ConocoPhillips, BP, and ExxonMobil) each contain provisions to reopen the agreements and change portions of the royalty oil valuation methodology. These "reopeners" offer the State and its lessees the opportunity to resolve disputes over royalty value, keep the royalty settlement agreements up-to-date, and avoid costly and time-consuming litigation. The State or the affected producer may exercise some of these "reopeners" (such as the "government action") at any time with no limits on when or how many times the reopener can be initiated. Other reopeners may only be exercised once every one to three years. These reopeners are often settled amicably without the trouble or expense of a full arbitration. When the royalty oil valuation methodology is changed as a result of a reopener usually a limited retroactive payment to the State or refund to the affected producer may be required. The new methodology will also be imposed prospectively and affect future State royalty revenues.

The State has just concluded a long-standing reopener dispute with ExxonMobil. As a consequence of the State's success in this dispute ExxonMobil will pay \$23.2 million in additional royalty value. The ExxonMobil reopener had three parts. ExxonMobil readily agreed to a relatively small issue related to the deduction for losses but the second issue went all the way to an arbitration hearing held in April 2005. DNR, Law, and its outside counsel successfully tried this part of the reopener arbitration over the question of the destination value of the State's ANS royalty oil. Trial preparation for this part of the reopener arbitration cost the State approximately \$1.5 million. The third part of the ExxonMobil reopener dealt with the deduction allowed for marine costs and the State and ExxonMobil agreed to a settlement "at the courthouse steps" in September 2006. Some of the actual costs of the arbitration hearing were avoided by the settlement but trial preparation still cost the State more than \$750.0.

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**Why is this Project Needed Now:** This CIP request will provide funds that may be expended directly by DNR or that may be RSA'd to the Department of Law to pay exclusively for contracts with outside counsel and experts to conduct the potential reopener arbitrations and to pay the State's share of the arbitration panel. In the past, CIP reopener funds have provided DNR with the capability to monitor the value provisions in the royalty settlements and to engage the producers in the first stages of reopener negotiations. These past reopener funds have been appropriately spent to initiate and usually successfully negotiate amendments to the royalty settlement agreements.

**Specific Spending Detail:**

Line Item Expenditures:

Services \$500.0